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WHAT IS AGRICULTURAL CREDIT?

BY R. B. VAN CORTLANDT

AGRICULTURAL Credit is something vitally interesting to every citizen of this country. The term is new here, but the thing itself is so urgently needed that we must have it in some form if our people are to remain prosperous—if, indeed, we are to continue to live. Various European nations, with soil naturally inferior to ours, have established Agricultural Credit and thereby have greatly eased the burden of the cost of living. Hitherto we have lived on the bountiful overflow of our rich land, and the pinch of necessity has not been felt; but now our population has grown enormous, our standards of living have been greatly raised, and our land is showing the effect of generations of taking out with very little putting back. We must do better or suffer.

How will Agricultural Credit help us? Speaking generally it will make life easier and better for all of us by increasing the yield of the land. And this will be done first, by placing agriculture on a better business basis; second, by mobilizing land and land mortgages; and third, by establishing financial institutions in which the prime interest will be that of the borrower—not that of the lender. If this programme seems utopian, the best reply is that its aims have been already realized with great gain in Europe, notably in Germany and France.

Hitherto the American farmer has not been a bookkeeper. His work is hard, and when the day is done he does not care to reckon up accounts. If at the end of the year the unpaid bills are not too heavy, and if the farm buildings, stock, tools, etc., are in fair shape, he is satisfied. That was the practice of the fathers, and it answered for their time; but to-day we are confronted with conditions that demand vast improvement in our methods if we hope to survive. Our grain and our cattle used to feed a large part of Europe. They do not now—or at least our food exports are but a fraction of what they used to be. We must not only replace the

elements of fertility in the land, but we must practise more intensive cultivation.

These things cost money. The initial investment must be large. The question then arises is the American farmer, so long used to easy-going methods, to get hold of the large sums he needs for betterments? By the installation of Agricultural Credit, farming will not only be made more profitable, but it will in the end make country life more attractive, so that our young people will remain on the land, and thereby check the present tendency to flock to the cities. The banking system of to-day is adapted to the needs of manufacture and commerce. The processes of nature are so much slower, however, that banking for farmers must be organized on a basis of credit for much longer periods.

Our present system of borrowing on land is by mortgages running from three to five years, the entire principal coming due at one time. This is expensive, involving renewals, and dangerous from the possibility of the mortgage falling due at a time of restricted credit so that it cannot be renewed. On the continent of Europe this business is handled by so-called land-mortgage banks, or rather associations. These associations are formed along varying lines, some with stock like the great French institution, the *Crédit Foncier*; some having no stock, like the German *Landschaften*; some being guaranteed by a state or province, as in Austria; while the principal one in Hungary combines ingeniously various features peculiar to itself. These institutions are formed along certain general fundamental lines as follows:

The mortgages granted are pledged for the security of bonds which the institution issues and sells in the general market. These bonds have no fixed maturity, but can be retired at par or some small premium at any time. When the borrower mortgages his land to the bank he agrees to pay a certain fixed sum semiannually. This is called the "Annuity" and is composed of the annual interest plus an amount, generally one-half per cent., toward the reduction of the principal of the debt and known as "Amortization," and an additional amount, about one-quarter per cent., toward the expenses of the bank. The borrower, therefore, at once begins to extinguish the principal of the debt; and as each year the principal decreases, the interest, of course, decreases also, and, the annuity being fixed, the proportion of it applicable toward the extinction of the mortgage in-

creases. Thus it happens that, beginning with a payment of one-half toward principal, the mortgage bearing four per cent. to four and one-half per cent., which are the general rates, the entire debt is extinguished in between fifty and sixty years.

The borrower has the right at any time to pay off the mortgage, a small penalty being generally exacted; but the lending institution cannot require payment from the mortgagor, thus guarding against any higher rate of interest being exacted during the life of the loan; whereas, should interest rates fall, the borrower can anticipate the payment of the mortgage and secure the benefit of the lower rate of interest. If payment of a mortgage is anticipated, or when the semiannual payments are received by the bank, it enters the market and buys or retires a corresponding amount of its bonds, so that its outstanding bonds never exceed in the aggregate the total of the mortgages it holds against them. This has also the advantage of making a constant market for the bonds, and there is no necessity of sinking-funds for special mortgages, as they are under a general pledge. These banks do not compete with the commercial banks.

The mortgaging of land is known as long-term credit, and it may be handled, as stated above, by joint-stock institutions or by associations of borrowers, the nature of the business being such that both forms of institutions have advantages and defects which may make the one form more adaptable to one community and the other form more adaptable to another; but in institutions furnishing the credit required by farmers for working capital, such as the purchase of seeds, fertilizer, payment for labor, etc., which is known as short-term credit, the third aim referred to—that the borrower should be primarily considered rather than the lender—assumes fundamental importance.

On the continent of Europe a solution is found in the organization of banks by the application of so-called co-operative principles. The purpose is to provide organizations in which the borrower receives consideration rather than the lender, also to keep the money of any body of individuals for the use of that body. Under our present system a great deal of money belonging to farmers finds its way into Wall Street. At present the lenders are organized; whereas the borrower stands alone. In a joint-stock bank the primary consideration is that of the stockholders.

The initial capital is secured by entrance fees and subscription to shares wherein the principle of limited liability is adopted; or, if there are no shares, resort must be had to the principle of unlimited liability—i. e., the equal and unlimited liability of all members who join the bank for every obligation the bank may contract.

After the co-operative bank is formed, the problem of securing funds to loan is, of course, the chief one; but, as one of the principles followed is to limit dividends on the stock to four or five per cent., a reserve can be gradually accumulated. Deposits come in as it is seen that the bank is doing a safe business, all speculative business being avoided. Other important features are that every stockholder has but one vote, no matter how many shares he owns; it is provided that no person shall own more than a certain number of shares, generally ten per cent.; and another absolutely essential feature, where the bank is formed with unlimited liability, is that the area in which it operates shall be so restricted that the members can all know and watch one another. The loans must be for a productive purpose and not, for instance, for living expenses, so that when the purpose sought has had time to accomplish the results aimed at, varying in agriculture from six months to two or three years, the borrower will receive funds to liquidate the loan. Loans are granted only to members of the bank, although deposits are accepted from outsiders.

The chief difficulty is that of securing funds sufficient to supply the needs of borrowers; therefore the advisability of forming a central bank for a group of local banks was clearly seen. The central bank acts as a clearing-house for the funds of the local banks, some of which have a surplus of deposits above the loan requirements of their neighborhood. In addition, the central bank, being an institution with very considerable resources, is in a position to do business with the large commercial banks and with the Government banks of issue which exist practically in all European countries. That this whole system of co-operative banks is of no mean proportions is at once shown by the fact that in Germany, for instance, their deposits amount to nearly \$500,000,000, and the turnover of thirty-six out of forty central banks in 1910 was about \$2,000,000,000.

R. B. VAN CORTLANDT.